

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 SSO-00 NSCE-00 USIE-00
INRE-00 AGRE-00 CEA-01 CIAE-00 COME-00 DODE-00 FRB-03
H-01 INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01
AID-05 SS-15 STR-04 ITC-01 TRSE-00 PRS-01 SP-02
FEAE-00 OMB-01 /093 W
-----111755Z 127556 /46

O R 111701Z MAR 77

FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 6424

INFO USMISSION GENEVA

USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 04439

E.O. 11652: GDS

TAGS: ETRD, CIEC, EFIN, UNCTAD

SUBJ: FRG PROPOSAL FOR COMMODITIES EXPORT EARNINGS
STABILIZATION

1. DEPUTY ASSISTANT SECRETARY BOSWORTH MET MARCH 11
WITH FRAU STEEG (ASSISTANT SECRETARY, MINISTRY OF
ECONOMICS) AND FRG OFFICIALS FROM MINISTRIES OF
FOREIGN AFFAIRS, FINANCE, ECONOMIC COOPERATION, AND
AGRICULTURE FOR DETAILED DISCUSSIONS OF CURRENT USG
AND FRG THINKING ON COMMODITIES ISSUES AND CIEC.
DURING COURSE OF THESE DISCUSSIONS, FRG OFFICIALS
OUTLINED A PROPOSAL NOW BEING ELABORATED WITHIN THE
FRG AIMED AT THE STABILIZATION OF LDC COMMODITIES
EARNINGS. FRAU STEEG SAID THAT THE MAJOR ELEMENTS OF
SCHEME WERE APPROVED IN PRINCIPLE EARLIER THIS WEEK
BY CHANCELLOR SCHMIDT DURING MEETING WITH KEY
MINISTRIES, ALTHOUGH TECHNICAL WORK IS STILL UNDERWAY
ON MANY OF THE DETAILS. SCHMIDT REPORTEDLY PLANS
TO RAISE THE PROPOSAL FOR DISCUSSION AT MEETING OF EC
CHIEFS OF STATE MARCH 25 AND AT THE SUMMIT IN MAY.
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FRAU STEEG SAID THAT FINMIN ASSISTANT SECRETARY POEHL
WILL PROBABLY RAISE THE PROPOSAL THIS WEEKEND IN
WASHINGTON DURING SUMMIT PREPARATORY MEETING.

2. AS OUTLINED BY FRAU STEEG,FRG PROPOSAL CALLS FOR THE
CREATION OF A GLOBAL STABEX SYSTEM INCORPORATED IN,
OR AT LEAST ATTACHED TO, THE IMF/IBRD COMPLEX. IT

WOULD BE DESIGNED TO COMPENSATE COUNTRIES FOR SHORTFALLS IN EARNINGS FROM EXPORTS OF ALL COMMODITIES. IT WOULD NOT BE BASED ON INDIVIDUAL COMMODITIES, AS IS THE CASE WITH THE LOME SYSTEM, NOR ON OVERALL EXPORT EARNINGS, AS UNDER THE EXISTING IMF SYSTEM.

3. THE GERMANS ARE STILL STUDYING THE QUESTION OF BOTH

COUNTRY AND PRODUCT COVERAGE. ON THE FORMER, THEY ARE TENTATIVELY THINKING OF LIMITING THE FACILITY TO LLDC'S AND MSA'S, ALTHOUGH THEY ARE SENSITIVE TO PROBLEMS INVOLVED IN TRYING TO EXCLUDE SOME OF THE HIGHER INCOME LDC'S. THEY ARE CURRENTLY THINKING IN TERMS OF INCLUDING ALL COMMODITIES, NOT JUST AGRICULTURAL COMMODITIES AS UNDER LOME. AT LEAST SOME OF THE FUNDS WOULD BE AVAILABLE TO RECIPIENTS ON A CONCESSIONAL BASIS, POSSIBLY INCLUDING GRANTS FOR THE VERY POOREST.

4. WITH REGARD TO COST AND POSSIBLE METHODS OF FUNDING, FRAU STEEG SAID THAT PRELIMINARY FRG STUDIES, BASED ON 1963-73 COMMODITY PRICE BASE, INDICATE AN ANNUAL FINANCIAL REQUIREMENT FOR SOME \$300 MILLION ASSUMING FULL PRODUCT AND COUNTRY COVERAGE. ACTUAL COST WOULD BE LOWER TAKING INTO ACCOUNT REPAYMENTS. GERMANS ENVISION FUNDING THE FACILITY PRIMARILY THROUGH DIRECT GOVERNMENT CONTRIBUTIONS, ALTHOUGH THEY HAVE NOT RULED OUT GOVERNMENT-GUARANTEED BORROWING IN PRIVATE MARKETS.

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 04439

5. FRG OFFICIALS STRESSED THIS SCHEME IS CONCEIVED TO PROVIDE AN ECONOMICALLY RATIONAL POLITICAL ALTERNATIVE TO THE UNCTAD COMMON FUND AS WELL AS THOSE VARIANTS OF THE FOURCADE POOLING PROPOSAL WHICH WOULD PROVIDE SOME CENTRAL SOURCE FINANCING FOR BUFFER STOCKS. THEY ALSO BELIEVE IT WOULD HELP TO RELIEVE LDC PRESSURE FOR A MUCH LARGER NUMBER OF PRICE STABILIZATION AGREEMENTS THAN THE FRG IS PREPARED TO CONSIDER. THE CHANCELLOR HIMSELF IS STRONGLY ATTACHED TO THE EARNINGS STABILIZATION CONCEPT AND HAS IN FACT ALREADY COMMENTED FAVORABLY ON IT IN PUBLIC STATEMENTS.

6. BOSWORTH THANKED FRAU STEEG AND HER COLLEAGUES FOR THIS DETAILED EXPLANATION OF CURRENT FRG THINKING. HE NOTED THAT USG IS ALSO EXAMINING ACTIVELY POSSIBILITIES FOR IMPROVEMENT AND EXPANSION OF COMPENSATORY FINANCE AS PART OF OUR OVERALL COMMODITIES APPROACH. BOSWORTH OUTLINED CURRENT USG THINKING ON BOTH THE POSSIBLE
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LIBERALIZATION OF IMF FACILITY AND THE POSSIBLE INCLUSION OF A COMMODITIES EARNINGS STABILIZATION ELEMENT IN THE TRUST FUND, STRESSING THAT NO DECISION HAD YET BEEN TAKEN ON THIS. BOSWORTH SAID WE HAVE ALSO BEEN LOOKING AT POSSIBILITIES FOR SOME TYPE OF GLOBAL STABEX AND THIS INDICATION OFFRG THINKING WOULD BE EXTREMELY USEFUL.

7. BOSWORTH AND STEEG AGREED THAT FRG AND USG SHOULD CONTINUE TO CONSULT IN DETAIL ON ALL ASPECTS OF COMMODITIES POLICY, INCLUDING EARNINGS STABILIZATION DURING NEXT SEVERAL WEEKS OF PREPARATION FOR NORTH/ SOUTH DISCUSSION AT SUMMIT AND CIEC MINISTERIAL.
STOESSEL

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Message Attributes

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